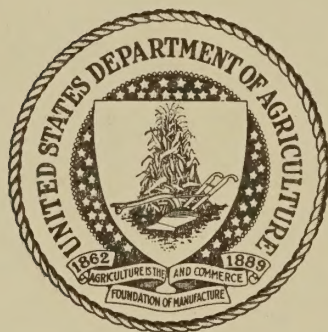


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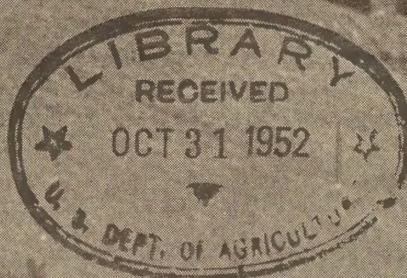
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What You Will Own In Your REA Co-op

Thanks to your REA co-op, you have electric service today which otherwise may not have been available to you.

And no one makes a profit out of that service. You and your neighbors own your cooperative system locally and operate it yourselves. If it is like the vast majority of REA co-ops, your cooperative is sound financially. It started with a heavy debt, but it is meeting its obligations. You will want to keep it sound, and also make sure that your share in its success is recognized.

This leaflet explains in detail the proposed Capital Credits Plan on which you and your fellow co-op members will vote. It will help you to see exactly what you will own in your REA co-op.





About The Capital Credits Plan

WHO supplied the original funds for your co-op power system? The funds were loaned to your cooperative by the Federal Government through the Rural Electrification Administration. You members merely paid a small membership fee.

Therefore, in addition to your payments for electric service, you must provide enough funds so that your co-op can meet all its cash obligations and make loan repayments as they fall due. Your rate schedule was prepared to accomplish that. This means that most REA co-ops receive from their members a little more than the actual cost of service.

The Capital Credits Plan is merely a method of operation for the co-op to make sure that every patron gets full credit for any amounts he pays in excess of the cost of serving him. He furnishes this money as capital and the co-op uses it for proper corporate purposes, such as retirement of debt and replacement of plant. The co-op, if the members agree, and the Plan is adopted, will credit each patron with

the full amount received from him in excess of operating cost. The co-op will set up on its books a patronage capital account for each patron. Each year, whenever the amounts received by the co-op in connection with the furnishing of electric service are greater than the expenses of rendering the service, the share of each patron in that excess amount will be credited to him in his capital account. He will be notified of the amount of capital he has furnished that year.

Eventually, when the co-op has accumulated enough funds to insure its financial stability, it will begin to pay back to the patrons the capital they have furnished. Retirement of patronage capital will probably be made in the order in which it was received.

This means, for example, that no patronage capital furnished in a particular year can be returned to the patrons until all of the patronage capital furnished in the preceding year has been paid back.

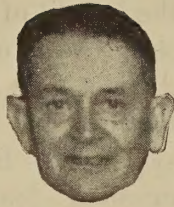
THE CAPITAL CREDITS PLAN

- assures service at cost
- maintains and reflects accurately the non-profit status of your co-op
- credits to co-op patrons all savings and other benefits of non-profit operation
- gives each patron full credit for any capital furnished by him, and provides for the eventual repayment of his capital
- provides you with these benefits without a strain on your pocketbook or asking that you take any financial risk

On the next two pages are the answers to some questions which may still be in your mind about the plan.

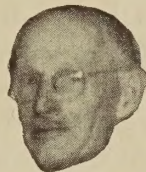


Q. Will each member be credited with the same amount of capital on the co-op books?

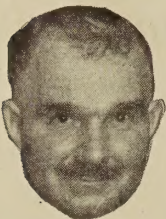


A. No. Each member will get capital credits in proportion to his payments for electric service during the year. If a co-op has received from all of its patrons \$100,000 in payments of electric service, and if the cost of providing the service was only \$90,000, then 90 cents of every dollar was paid to cover the cost of electric service and 10 cents was furnished as patronage capital. Therefore, a patron whose service bills totalled \$200 will be credited with \$20 on his patronage capital account. A patron whose electric bills totalled \$60 will be credited with \$6 on his patronage capital account on the co-op books.

Q. You said a "patron." Don't you mean a member of our co-op?



A. Not necessarily. The Capital Credits Plan applies to all patrons, regardless of whether they are members or non-members.



Q. Why should non-members be given capital credits?

A. Because they furnish capital just the same as the members.

If they were not given credit for such capital, the co-op would make a profit from serving them. In that case, the co-op would lose its non-profit status.

Q. What is the advantage of being a member if non-members get the same benefits as members?



A. There are several important advantages. Non-members have no share in the control of the co-op, nor a voice in determining co-op policies. They cannot hold any office in the co-op. While they are entitled to credit for any capital which they furnish, they do not have any share in the other assets of the co-op, as do the members.



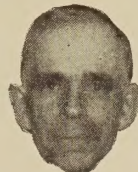
Q. Will capital be credited to the patrons every year?

A. Capital will be credited to patrons only for a year during which

the amounts received by the co-op for electric service were greater than the cost of rendering service.

If in any year the amounts received were less than the co-op's expenses, no patronage capital has been furnished in that year and no capital credits can be given to the patrons.

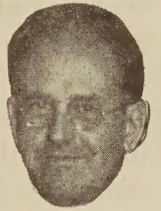
Q. If a co-op loses money in any year, will each patron be charged with any portion of the operating deficit?



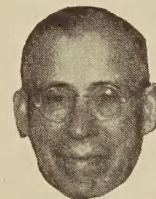
A. No, there will be no assessment on the patrons individually for any operating deficit. Of course, the operating deficit will have to be shown on the co-op's books. Otherwise the books would not give a true picture of the co-op's financial condition. But that

can be done without any charge to the patrons individually.

Q. Will I ever get back any of the patronage capital I will have furnished my co-operative?



A. Yes. When your co-op has accumulated enough money to pay its debts and insure financial stability, your co-op board can authorize the repayment of patronage capital, probably in the order in which it was received. From that time on, assuming that the patrons continue to furnish enough capital each year, your co-op can probably retire each year the oldest outstanding capital credits. In this way, the financial ownership of the co-op will at all times be as much as possible in the hands of those currently using the service.



Q. When will the first retirement of patronage capital be made?

A. That depends on how efficiently and economically your co-op operates. It

will be good business, of course, to pay off the Government loan as rapidly and as early as possible. Some may achieve this objective earlier than others, and then be in a position to begin returning capital to patrons who furnished it.



Q. What will my co-op do with the actual money with which I am credited? Keep it on deposit in the bank as a cash reserve for itself?

A. While enough of it will be kept in liquid form for current needs and emergencies, the greater part will be used in retiring the original loan and in replacing worn-out property. Therefore, it will to a great extent be represented by investments in poles, wires, transformers and the like. The liquid portion will be available for any legitimate capital need. It stands on the books as your investment in your cooperative enterprise.

Q. Can I look forward to getting any large sums of money when my capital credits are retired?



A. Probably not, if your co-op is efficiently managed. Actual cash payments should be modest, and there is a good reason for this. Your co-op does not ask you to make any larger payments than are absolutely necessary to the good conduct of your business. Remember, the co-op does not operate for profit. Therefore, should capital credits become larger than the directors of your cooperative believe necessary,

they will consider it good management to lower your rates. It is better to have lower rates now than to accumulate capital credits. It should be noted that setting aside capital credits will not prevent any rate reduction contemplated by your cooperative management.

Q. If I am one of the original members of our co-op, why should I vote for this Capital Credits Plan? Isn't it unfair to us old members, who worked hard to get the co-op going, to let the new members build up capital credits while we got no capital credits for the first few years just because we had too few members to enable the co-op to operate without a loss?

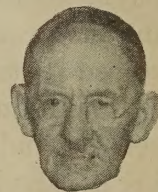


A. As an original member of your co-op, you had the benefits of electricity much earlier than the newcomers. If your co-op operated at a loss during those early years, you were actually getting service at less than cost and you didn't supply any capital.

Remember that the patronage of these new members has helped to bring operating costs down for

the benefit of all, including yourself. As an original member you did not take a real financial risk because the entire cost of the system was financed with a Government loan. Therefore, the Capital Credits Plan is eminently fair to the original co-op members.

Q. Why can't our co-op put the Capital Credits Plan into effect by a resolution? Why must our co-op bylaws be amended?



A. For legal reasons your co-op will find it advisable and necessary to have an agreement which has the force of a contract between the co-op and its patrons. The proposed bylaws provision will meet that requirement. It will assure that you will have credited to you as capital any amounts paid by you for electric service in excess of the cost of serving you. That is why it is very important for every member to vote for the Capital Credits Plan, so that he can be sure of service at actual cost, and can establish a personal equity in proportion to his excess payments to his co-op.



"Capital Credits offers you assurance of electric service at cost."

RURAL ELECTRIFICATION ADMINISTRATION *REA* U. S. D. A.

